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THE BALANCE OF TRADE OF THE UNITED STATES

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EVER since the signing of the armistice turned our attention to the economic readjustments certain to follow the Great War, the position of the United States with respect to its foreign trade has been studied with increasing interest and attention. The peculiar situation this country occupied from 1914 to 1918 has resulted in a prodigious increase of exports which has enabled us to pile up a succession of "favorable" trade balances of record-breaking proportions. Gold has flowed into the United States in enormous quantities, we have repurchased large amounts of American securities formerly held abroad, and at the same time we have loaned to foreign governments and individuals vast sums of money. Such conditions, obviously, cannot continue indefinitely, and it is clear that sooner or later our foreign exchanges must be restored to a normal basis. Just what this involves has not been perfectly clear, and yet it is recognized that the future course of American industry will be profoundly affected by the character of the readjustments that must take place. Believing that the problems presented by the future course of our foreign trade are among the most important which the country will face during the next few years, THE REVIEW OF ECONOMIC STATISTICS offers its readers the following historical and descriptive study of the balance of trade of the United States.¹

I. THE HISTORY OF OUR FOREIGN TRADE BALANCE FROM 1789 TO 1914

In order that recent events may be seen in due perspective, it is necessary first of all to study the history of the foreign trade of the United States with special reference to the movement of our trade balance. A preliminary word is necessary concerning sources of information. Statistics of international commerce always contain an element of error, and this is especially true of the only data available for the early decades of our national existence. Prior to 1821 imports admitted free of duty were not reported at all, and those subject to specific duties were reported by quantity, not value; moreover, such values as were recorded were reckoned arbitrarily at 10 or 20 per cent above the cost of the articles at their port of origin, to allow for the value gained in transportation, i. e., the

freight charges and importers' profits.² The statistics now accepted as official for this period were made up in the Treasury Department in 1835, and are based largely on estimates and comparisons.³ The figures for exports are more complete, though perhaps not more accurate than those for imports, as there was little check on the exporters' valuations and they are believed to have been too high. Beginning in 1821, the *Annual Reports on Commerce and Navigation* were published with greater or less regularity, and there was probably a constant improvement in the character of our commercial statistics. For many of the items, other than exports or imports of merchandise, that contribute to the international dealings of the United States, no official data are obtainable, and we are compelled to rely upon mere estimates that sometimes have a decidedly conjectural character. Precise computation, therefore, is impossible. The most that can be done is to demonstrate what the general tendencies have been in each epoch investigated.

A. FIRST PERIOD, 1789 TO 1820: EXCESS OF IMPORTS BALANCED BY PROFITS OF OUR MERCHANT MARINE

The first period that we shall study extended from 1789 to 1820. It witnessed a rapid growth of our commerce up to the year 1807, when such events as the Embargo, Non-Intercourse Acts, and the War of 1812 affected all industry most injuriously. After the restoration of peace in 1815, a period of wild speculation, fostered by an inflation of the currency, encouraged large importations of foreign products. These were viewed as a sign of prosperity while the "boom" lasted, but were styled an inundation of European goods as soon as the speculative fever abated. The reaction, however, lowered prices and checked the flow of imports, which decreased rapidly from \$147,000,000 in 1816 to \$74,000,000 in 1820.

For the entire period of thirty-one years, the estimated imports of merchandise and specie amounted to \$2,350,628,000, while exports were placed at \$1,839,000,000, an "unfavorable" balance of \$512,000,000. By using different estimates we can get a balance as small as \$360,000,000 or as large as \$535,000,000, but the official estimate seems the most reasonable. Nor was this our only item of international indebtedness. Foreign capital was largely represented in the debt of the federal government, and had been invested in the stock of the first Bank of the United States and in other enterprises. For interest on all such investments we owed, for the entire period, a sum that is estimated at \$200,000,000 or more. In spite of this immense balance against us the supply of specie in the country did not decrease, but taking the period as a whole increased

¹ Our study has been made possible by generous contributions from the following companies and firms: The Consolidated Steel Corporation; The American International Corporation; J. P. Morgan and Company; The National City Bank of New York; The United States Steel Products Company; and W. R. Grace and Company.

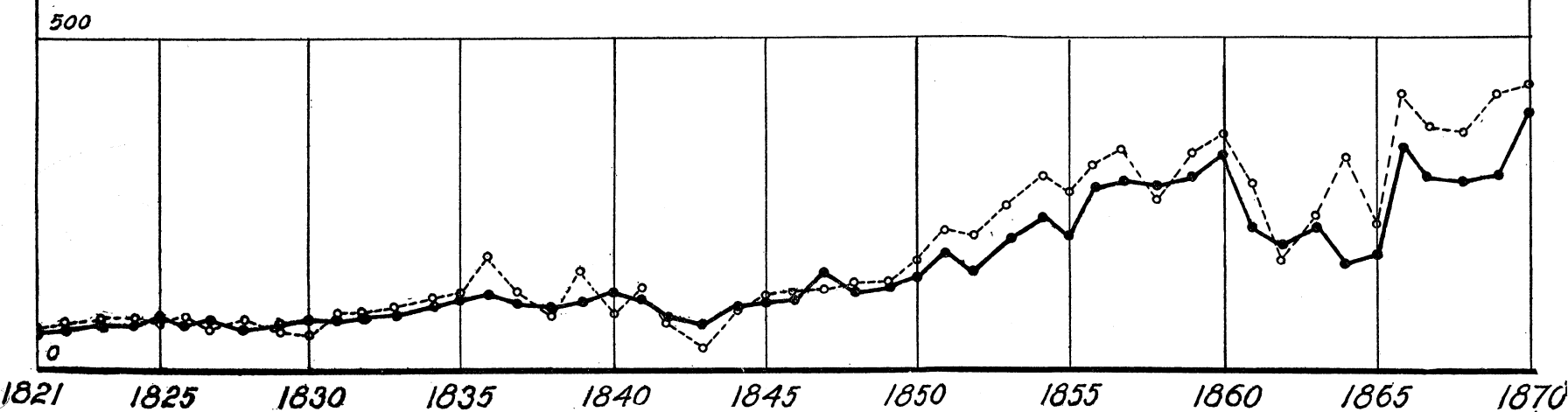
² Pitkin, *Statistical View* (1835 ed.), p. 163.

³ For the period 1790-1804 they are \$134,000,000 greater than the unofficial estimate of Blodget, *Economica*. See *Report of Secretary of Treasury*, 1835, Apps. C and D.

ANNUAL MERCHANDISE EXPORTS AND IMPORTS OF THE UNITED STATES, 1821-1914*

(After 1873 silver is treated as merchandise)

Exports
Imports



* Fiscal years; units of \$1,000,000.

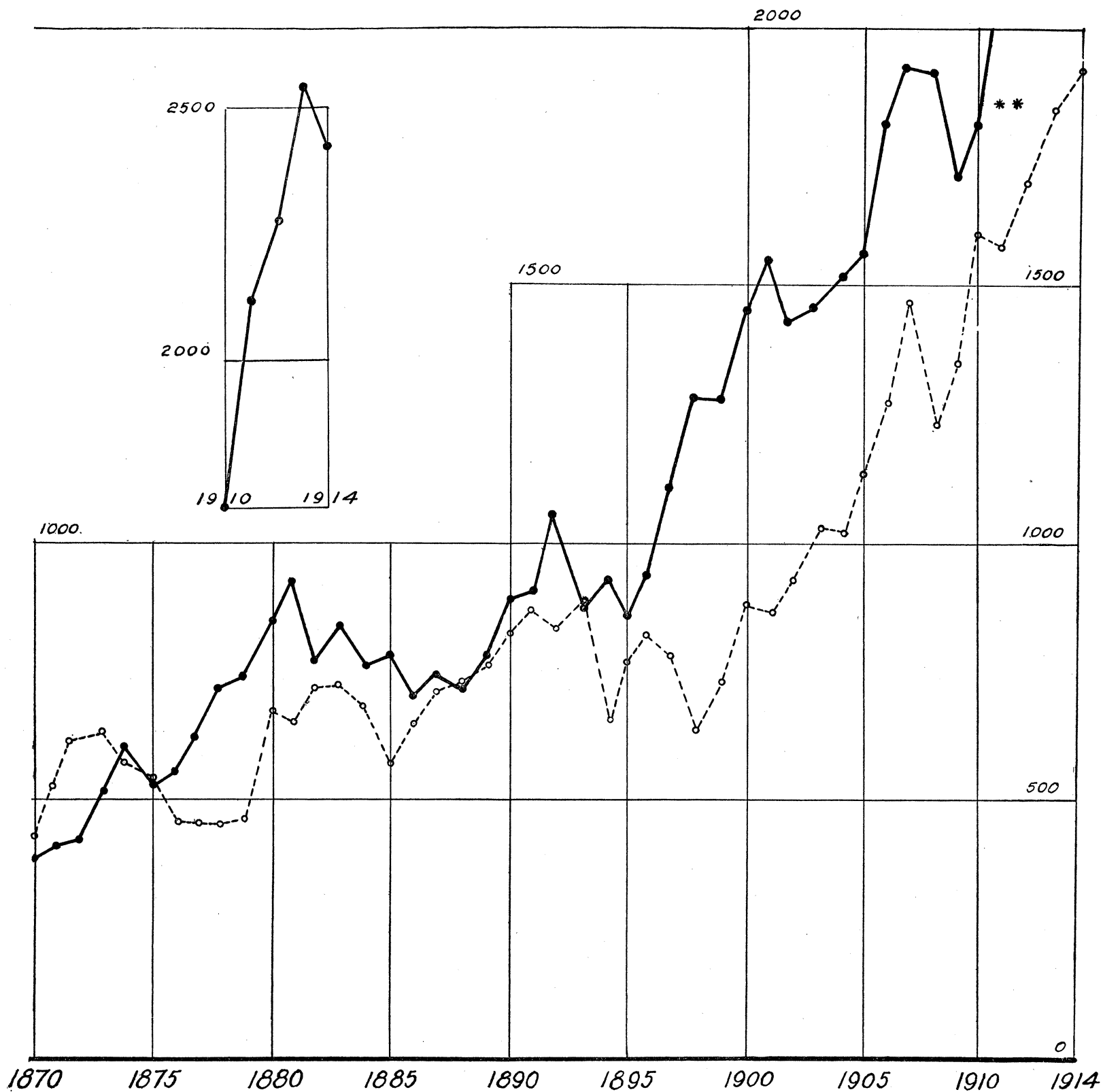
considerably. Tench Coxe¹ estimated the amount on hand in 1791 at \$7,000,000. Secretary Crawford² estimated the amount on January 1, 1820, at \$20,000,000, of which \$15,500,000 was held by the banks; but Gallatin, revising his figures, gave nearly as large a sum (\$19,820,000) for the amount of specie in the banks alone. This is the more striking in view of the large sums said to have been sent to China and India in those years, and in view also of the redundancy of irredeem-

¹ *View of the United States* (1794), p. 352. See also Sumner, *Finances of the American Revolution*, 1, pp. 99, 100, for other contemporary estimates.

² *Report on Currency*, in *Finance Reports*, 2, p. 482.

³ Seybert, *Statistical Annals* (1818), p. 281; Pitkin, *Statistical View* (1817), p. 246; see also Gallatin in *American State Papers, Commerce and Navigation*, 1, p. 643.

able paper during and after the War of 1812. How then was this unfavorable balance paid? Contemporaries agree that it was mainly by the earnings of our merchant marine.³ The situation was analyzed correctly by Timothy Pitkin in 1817. He showed that a cargo of flour shipped to Spain in an American vessel would be valued at \$47,500 at domestic prices, and would figure at this amount in the returns of our exports. If the flour were sold in Spain at the usual advance necessary to cover freight, insurance, commissions, and a fair profit, it might command as much as \$75,000. Then, if the proceeds from the sale were invested in a return cargo that would be valued at our custom houses according to the prescribed methods, the final result of the voyage would be the importation of commodities that



** For EXPORTS, 1910-1914, see insert.

exceeded very greatly the value of the original exports. Therefore, he contended that, if the imports had not shown an excess, our ships would have incurred a loss on their voyages. Moreover there was a vast trade done by American vessels between foreign ports.

The exact amount earned by our ships cannot be ascertained. Estimates vary from \$450,000,000 to \$800,000,000.¹ The tonnage of the ships registered for the foreign trade amounted for the entire period to 20,000,000 tons engaged in traffic for one year. Other credit items, such as the proceeds of American ships sold abroad, duties retained on reexported goods, in-

demnities, and losses by foreign creditors during our financial crises, cannot be valued with any approximation to accuracy. But there is no doubt that, taken together, they did balance and more than balance the excess of imports, for, during most of the period under consideration, London exchange was at a discount in the United States, in spite of the net import of specie previously mentioned,² and in spite of the reduction of our foreign debt and the repayment of foreign capital invested in the first Bank of the United States.

B. SECOND PERIOD, 1821 TO 1837: EXCESS OF IMPORTS INCREASED BY INFLOW OF FOREIGN CAPITAL

The second period in the history of our foreign trade runs from 1821 to 1837. Like the preceding it was

¹ W. P. Sterns, in *Journal of Political Economy*, 6, p. 195.

² Gallatin, *Considerations on Currency and Banking* (1831), p. 59; Crawford, *Report on Currency* (1820), App. E.

marked by an excess of imports. During the first part of it our commerce showed no material increase over the first period, but after 1830 the volume of imports increased very greatly — from \$62,720,000 in 1830 to \$176,579,000 in 1836 — while exports increased much less rapidly.

This was the result of an extraordinary speculative movement, which culminated in the crisis of 1837. During these years population advanced at a rapid rate, immigration became very large, and sales of public land increased greatly. The state banks were enabled to expand their note issues from \$61,000,000¹ in 1830 to \$103,000,000 in 1835, the notes being largely used in payment for the land occupied by settlers. Then, in 1836, the federal government distributed \$28,000,000 of surplus revenue among the states, this money finding its way into the banks, which increased their issues to \$149,000,000 by the year 1837. Such an inflation of the currency raised prices and invited large importations of merchandise. For the entire period imports of merchandise aggregated \$1,574,000,000 and exports were placed at \$1,389,000,000, an "unfavorable" balance of \$185,000,000. More than this, the movement of specie showed an excess of imports amounting to \$36,714,000; so that on these two accounts the balance of importations was not less than \$221,000,000. Actually it must have been considerably larger, as imports were always undervalued; moreover the official valuation of the pound sterling until 1832 was only \$4.44, on which account alone some \$30,000,000 must be added to the official figures of imports.²

The indebtedness of the country was increased still further by whatever sums were due as interest to foreign investors, but these were more than offset by new in-

vestments. Although the United States by 1835 had completely paid off its public debt, the states had begun to finance banks and public improvements, and borrowed during the period \$174,000,000, of which \$147,835,000 was borrowed between 1830 and 1838.³ Part of this was simply a reinvestment of money previously invested in the federal debt; part was a reinvestment of the interest on previous investments; part was owed to domestic creditors; but the greatest part was actually a fresh flow of capital from abroad, resulting in a large inflow of goods which were paid for only in obligations, some of which unfortunately were ultimately dishonored. A committee of the House of Representatives which made its report in 1843 supposed the amount of state and city debt held abroad at that time to be \$150,000,000, nearly all of which had been borrowed before 1839.⁴ Foreign creditors had also invested in some of our railways, but the sums so invested are unknown. As the amount of our federal debt held by foreigners at the beginning of this period was only about \$25,000,000,⁵ the amount of new capital invested must have been over \$125,000,000, and the amount of interest accrued about \$80,000,000. The \$45,000,000 of new investments in excess of the total due for interest went part way to cancel the balance on merchandise imports. Another contribution to this end was the money brought here by immigrants, who numbered over 550,000 during these years. Fifty dollars apiece does not seem excessive, considering that these were not merely migratory laborers, but *bona fide* settlers; this would amount to \$11,000,000. On the other hand there is the money spent by Americans traveling abroad, which there is no means of ascertaining. These two last items may be assumed to offset each other.

During these years many American vessels were sold abroad. Sales of 172,000 tons⁶ at \$50 a ton⁷ give the United States a credit of over \$8,000,000. For this period, however, as in the preceding one, the greatest factor in settling our foreign indebtedness was the earnings of our merchant marine. There are several possible ways of reckoning their amount; exact statistics of course are lacking. One way is to multiply the amount of registered tonnage by the average earnings per ton as stated by contemporary observers.⁸ Another method is based on the amounts of imports and exports carried in American and foreign vessels: since American consumers must bear the expense of bringing merchandise to this country, the freight charges on goods brought in foreign vessels will be reckoned as an element in our international indebtedness, while the sums earned by American vessels in the import trade will be considered to have no effect upon the foreign exchanges.⁹ Similarly, with our exports, we shall estimate that other countries are indebted to the United States for freights on goods carried in American vessels, and that cargoes shipped in foreign bottoms may be omitted from our computations. Estimates of the probable proportion between freight charges and the values of the products

¹ The specie held by banks increased from under \$20,000,000 in 1820 to over \$35,000,000 in 1837. Cf. *Reports of Secretary of Treasury*.

² Gallatin, in *Sen. Doc. 55*, 22d Cong., 1st sess., pp. 5, 21. Cf. Sterns, in *Journal of Political Economy*, 8, p. 54.

³ *Tenth Census Report on Valuation, Taxation, and Public Indebtedness*, pp. 527, 530. Of this amount \$107,823,000 was borrowed after 1835.

⁴ *House Report 296*, 27th Cong., 3d sess., March 2, 1843, pp. 3, 7.

⁵ Seybert, *Statistical Annals*, p. 757 (estimate for 1818).

⁶ *Annual Reports on Commerce and Navigation*.

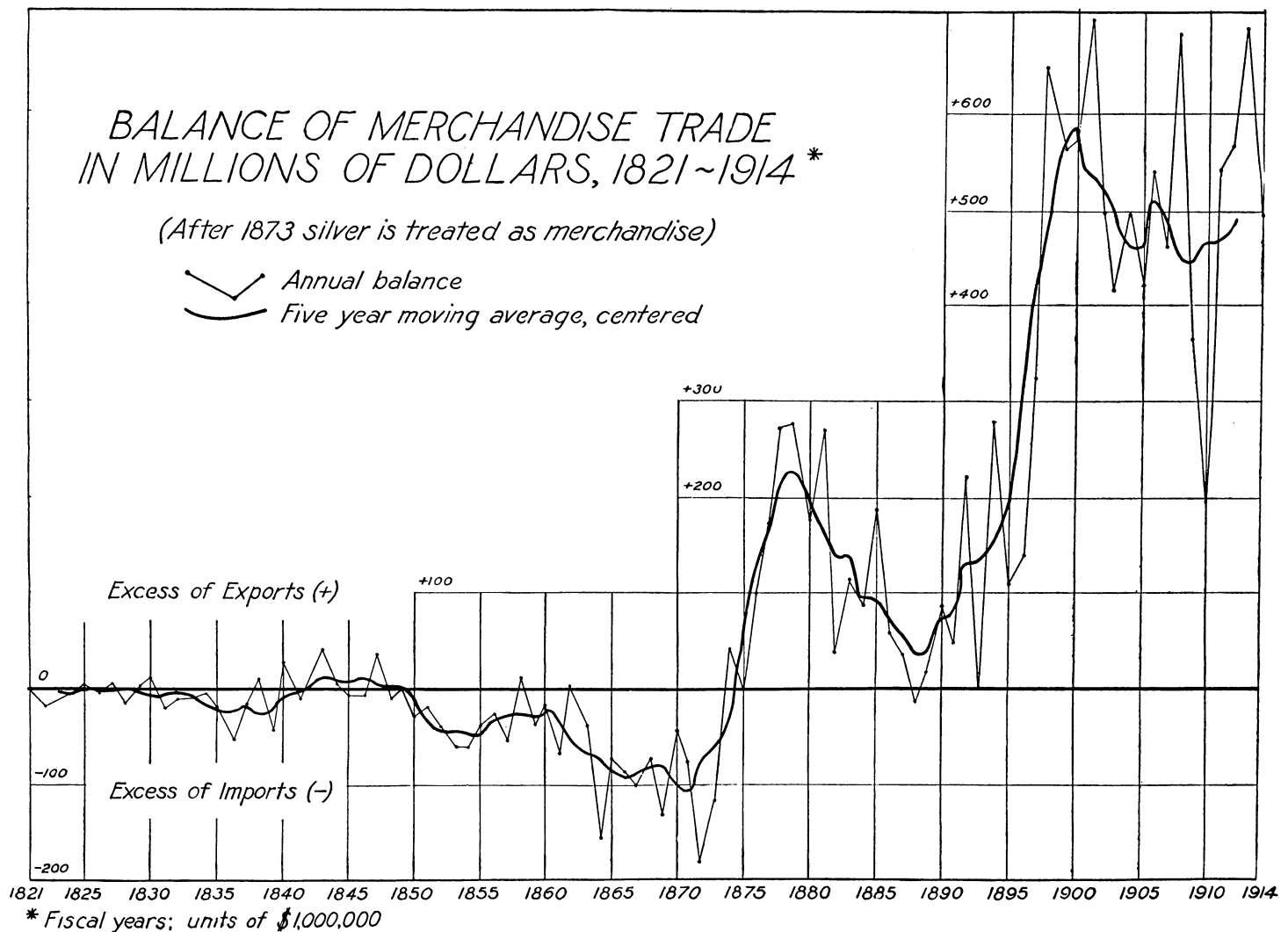
⁷ Sterns, in *Journal of Political Economy*, 6, p. 193. Cf. Kettell, in *Eighty Years Progress*, 1, p. 167, who reckons values at \$100 per ton at a somewhat later period.

⁸ In connection with this method a deduction must be made of the amount of freight paid by Americans on goods imported into this country.

⁹ Until 1832, with the exception of four years (1795-99), the statutes required imports subject to *ad valorem* duties to be entered at 10 per cent above actual cost, or 20 per cent if from beyond the Cape of Good Hope. This addition would approximately cover the freight charges, if it had applied to all imports; but after 1820 other imports were valued as at place of origin. Before 1820 the value of goods not subject to *ad valorem* duties was not recorded, but the Treasury Department in 1835 converted the recorded quantities into values as at place of importation. In strict accuracy the freights earned by foreign vessels bringing these goods here should be separately reckoned, but that is not possible except roughly, and in view of the large element of conjecture involved in this method of reckoning freights would not be worth while. For the same reason no deduction is made to represent the earnings of American vessels bringing in goods subject to *ad valorem* duty between 1820 and 1832. Sterns held that the additional percentage was only enough to offset undervaluation. (*Journal of Political Economy*, 8, p. 54.) Cf. *Report of Secretary of Treasury*, 1835; also Pitkin, *Statistical View* (1835 ed.), pp. 164, 165.

carried range from 10 to 15 per cent. On account of the greater bulk of our exports we may use the latter estimates for exports and the former for imports.¹ The first method of reckoning gives us, at \$33½ per ton,² \$206,000,000 for the balance of earnings accruing to the United States from ocean transportation; the second method gives \$176,000,000, taking no account of the

- (2) Although there was little mining of precious metals, and paper substitutes for money were in common use, the amount of specie in the country increased.
- (3) The earnings of our merchant marine were insufficient to pay the balance due to foreign countries.



earnings of American vessels in trade between foreign countries, which must have amounted to at least \$30,000,000.

If the foreign trade of the United States in the period 1821-37 were put in the form of a balance sheet, it would look something like this, bearing in mind that all of these items are approximate only:

1821-37	Credit	Debit
Merchandise	\$1,389,000,000	\$1,574,000,000
Undervaluation of pound sterling		30,000,000
Specie	107,675,000	144,389,000
Freights	214,000,000	8,000,000
Capital and interest	125,000,000	60,000,000
Sale of ships	8,000,000	
Immigrants	11,000,000	
Tourists		11,000,000
	\$1,854,675,000	\$1,827,389,000

The outstanding features of this period then are:

- (1) An excess of merchandise imports did not cause an outflow of specie.

- (4) This deficiency was remedied by the willingness of foreign capitalists to invest in American enterprises.

At the end of the period there was an unsettled balance against us, and sterling exchange was at a premium.³

C. THIRD PERIOD, 1838 TO 1849: AN EXCESS OF EXPORTS DUE TO INTEREST PAYMENTS ON FOREIGN INDEBTEDNESS

The next period, 1838-49, differs from the years preceding in that the excess of merchandise imports that had previously been characteristic of our foreign trade was temporarily suspended. The recorded imports of merchandise aggregated \$1,358,000,000, while exports were estimated at \$1,392,000,000. Thus a small bal-

¹ Cf. *Sen. Doc. 55*, 22d Cong., 1st sess., 1, pp. 21, 29, for Gallatin's opinion.

² Sterns, in *Journal of Political Economy*, 8, p. 53, and 6, p. 194. The data for these computations may be found in the *Report on Commerce and Navigation*, 1878, Pt. I, pp. lxxi, 149.

³ Trotter, *Finances of American States*, App. I.

ance of \$34,000,000 stood to the credit of the United States. At the same time imports of gold and silver had exceeded exports by \$36,000,000; so that the movements of merchandise and specie had reached approximately a condition of equilibrium.

This period opened with several years of continued depression, as a consequence of the panic of 1837 and after that a second general bank suspension in 1839. It was not until 1844 that conditions began to improve and the foreign commerce of the country showed a decided increase. In 1847 the exchanges were affected greatly by the famine that followed the failure of the potato crop in Ireland. This event caused a remarkable increase in our exports of breadstuffs which rose from \$7,445,000 in 1845 to \$53,262,000 in 1847. The result was that our exports of merchandise exceeded imports, in the year last mentioned, by \$34,317,000. Such a sudden disturbance of trade caused a net importation of specie amounting to \$22,214,000. This large inflow of money altered the condition of the exchanges; so that in 1848 imports increased by \$26,000,000, while exports declined more than \$18,000,000, and a balance of \$9,481,000 of specie was exported.

Why were our imports paid for entirely with goods or specie, instead of partly with services and securities as before? It was partly because we were able to export more, owing to the opening of communication with the West; partly because we had difficulty in borrowing abroad, and in consequence were unable to buy foreign goods as freely as in the years just preceding.¹

The panic of 1837 had checked the growth of state debts, and by 1839 European investors were thoroughly afraid of American investments. How much capital they lost by repudiation of state debts and by the failures of those years cannot be stated;² but it was a long time before they again became eager to risk their money in American enterprises.³ Nevertheless in the first two years of this period considerable sums had been invested, and toward the end confidence began to return.

¹ The high duties imposed by the Tariff Act of 1842, and especially the requirement that duties must be paid in cash, cut down imports for a few years, but in 1846 the rates were again reduced.

² English stockholders in the Bank of the United States lost \$20,000,000, Sumner, *History of Currency*, p. 152.

³ Pearson, *American Railway Builder*, pp. 41, 45; Kettell, in *Eighty Years Progress of the United States*, I, p. 152.

⁴ *Sen. Exec. Doc. 42*, 33d Cong., 1st sess., March 2, 1854, p. 2. *House Report 296*, 27th Cong., 3d sess., March 2, 1843, p. 7.

⁵ W. P. Sterns, in his article in the *Journal of Political Economy*, 8, p. 53, reckons that one-fifth of American registered tonnage was engaged in the carrying trade between foreign ports in the years 1820-40. Assuming that this was still true, the freights so earned, at \$33½ per ton, would amount to \$72,000,000 in the period 1838-49. The excess of expenditures of the War and Navy Departments between April 1, 1846 and April 1, 1849, above the normal amounts for the three previous years was about \$64,000,000. During the fiscal year 1849 there was also paid to the Mexican government some \$5,500,000 under the terms of the treaty of peace. On the other hand it is certain that a large part of these expenditures was in payment of goods and services provided by Americans, and would not affect our foreign balance, so only \$25,000,000 is entered under this head on our balance sheet.

⁶ *Annual Report on Commerce and Navigation* (1873), p. 920.

⁷ Kettell, in *Eighty Years Progress*, I, pp. 243, 244. He estimates tourists' average expenditures at \$1800, of which \$600 was passage money, usually paid to American ship owners.

The value of American securities held by foreigners was between \$150,000,000 and \$200,000,000 at the beginning of the period, and was estimated at \$222,000,000 by the Secretary of the Treasury in 1853.⁴ The average for the years 1838-49 may have been \$200,000,000, upon which the aggregate interest charges would amount to \$144,000,000, against which must be entered the amount of new foreign investment, probably not over \$40,000,000.

Upon the other hand, our merchant marine was still active on the high seas, and over four-fifths of our imports and exports were carried under the American flag. On account of ocean freights, the United States was entitled to a credit of \$142,000,000 by the method of reckoning from the value of imports and exports previously described. Cargoes carried by our ships between foreign ports increased the earnings of the merchant marine; and were probably more than sufficient to balance any foreign outlays occasioned by the operations of our army during the Mexican War.⁵

Other items may be roughly estimated as follows: from the sale of ships, 123,000 tons⁶ at \$50 per ton equal \$6,150,000; money brought by immigrants, at \$50 each, about \$75,000,000; money spent by Americans abroad, 65,000 tourists at \$1300 apiece equals \$84,500,000; money remitted by immigrants to their families, at least \$15,000,000.⁷

A balance sheet for this period would be somewhat as follows:

1838-49	Credit	Debit
Merchandise	\$1,392,000,000	\$1,358,000,000
Specie	78,300,000	114,400,000
Freights	236,000,000	22,000,000
Capital and interest	40,000,000	144,000,000
Sale of ships	6,150,000	
Immigrants	75,000,000	15,000,000
Tourists		84,500,000
Mexican war and indemnity		25,000,000
	\$1,827,450,000	\$1,762,900,000

Although most of the figures here presented are only rough estimates, the outstanding features of this period, which distinguish it from all previous and subsequent periods in the history of our foreign trade, are certain enough; that is, that for twelve years our material imports barely equaled our material exports, an excess of merchandise exports paying for an excess of specie imports; while the earnings of our merchant marine, which had previously been brought home in the form of goods, thus swelling the volume of imports, were now required to settle our indebtedness to foreigners on account of immaterial items, especially interest.

D. FOURTH PERIOD, 1850 TO 1873: EXCESS OF IMPORTS RESTORED BY GROWTH OF DOMESTIC GOLD PRODUCTION AND BY FURTHER INFLOW OF FOREIGN CAPITAL

The fourth period in the history of our foreign trade witnessed a return of the unfavorable balance which, but for the brief period of 1838-49 just reviewed, was the characteristic condition from the beginning of our

study down to 1874. As is shown in the adjacent table, the trade balance was unfavorable in twenty-two out of the twenty-four years which comprise this period. Only in 1858 and in 1862 was there an excess of exports over imports, and in those years the excess was inconsiderable.

This period begins with the discovery of gold in California in 1850. It ends with the speculative outburst, characterized by feverish railroad expansion and large foreign borrowings, which terminated with the panic of 1873. It includes the period of the Civil War, when our foreign trade, especially the exports, was markedly restricted. It witnesses large sales of our ships, and the passing of our merchant marine as an important credit factor in our balance of international payments. These were the main features of the period; and of these the dominant ones were gold production and export, and the borrowing of foreign capital.

The merchandise trade experienced a notable growth, the annual average of the combined exports and imports being \$613,000,000, as against \$227,000,000 in the period 1838-49, an increase of 169 per cent. The yearly average of exports was \$274,000,000, as against \$116,000,000 in the preceding period; and of imports, \$339,000,000, as against \$113,000,000. This extraordinary increase of imports, almost threefold, was the most striking feature on the debit side of our international balance.

The accompanying table presents the annual trade balances for the period. The first four columns are for merchandise only; the last two show the net annual movement of gold and silver.¹

As regards the merchandise trade, the most noteworthy facts shown by the table are the marked decline of exports during the Civil War and the extraordinary expansion of imports in the late sixties and early seventies. In the five-year period 1861-65 exports amounted to only \$940,000,000, or but 64 per cent of the total for the preceding five years (\$1,474,000,000), and 52 per cent of the total for the five years after the war (\$1,605,000,000). This decrease was due entirely to the cutting off of cotton by the war. In the year ending June 30, 1860, exports of cotton amounted to \$192,000,000, and in the fiscal year 1866 to \$281,000,000. In the last year prior to the war cotton constituted 57 per cent of the total value of exports, and in the first year following the war, 81 per cent. But in 1861 exports of cotton shrank to \$34,000,000, and in 1862 they were only \$1,180,113. In none of the war years after 1861 did they amount to \$10,000,000.

The expansion of imports after the war was even more striking than the preceding fall in exports. During the war the import trade had been somewhat restricted, though not markedly so except in 1862, when imports

UNITED STATES BALANCE OF TRADE 1850-73

(UNITS OF \$1,000,000)

Fiscal years	Exports	Imports	BALANCE		NET MOVEMENT OF GOLD AND SILVER	
			Excess of exports (+)	Excess of imports (-)	Excess of exports (+)	Excess of imports (-)
1850	144	174	....	29	2.9	
1851	189	211	....	22	24.0	
1852	167	207	....	40	37.2	
1853	203	264	....	60	23.3	
1854	236	298	....	62	34.3	
1855	219	258	....	39	52.6	
1856	281	310	....	29	41.5	
1857	294	348	....	54	56.7	
1858	272	263	9	....	33.4	
1859	293	331	....	38	56.5	
1860	334	354	....	20	58.0	
1861	220	289	....	70	....	16.5
1862	190	189	1	....	20.5	
1863	204	243	....	39	54.6	
1864	159	316	....	158	92.3	
1865	166	239	....	73	57.8	
1866	349	435	....	86	75.3	
1867	295	396	....	101	38.8	
1868	282	357	....	75	79.6	
1869	286	418	....	131	37.3	
1870	393	436	....	43	31.7	
1871	443	520	....	77	77.2	
1872	444	627	....	182	66.1	
1873	522	642	....	120	63.1	
Total	6585	8125	1541 Net Imports		1098.2 Net Exports	
Yearly Average	274	339	64 Net Imports		45.8 Net Exports	

fell off \$100,000,000 (from \$289,000,000 in 1861 to \$189,000,000 in 1862). For the whole war period imports amounted to \$1,276,000,000, or 80 per cent of the total for the preceding five-year period (\$1,604,000,000). Then came an extraordinary expansion. In 1866 imports amounted to \$435,000,000, almost double the figure for 1865 (\$239,000,000). The total for the five years 1866-70 was \$2,042,000,000. In the early seventies the expansion was even more pronounced, culminating in 1873 with imports of \$642,000,000, the largest amount imported in any year prior to 1880. Taking the eight-year period 1866-73, imports amounted to \$3,831,000,000, an increase of 175 per cent over the imports of the preceding eight years (\$2,224,000,000), and a figure equal to 46 per cent of the imports for the twenty-four years from 1850 to 1873.

This remarkable outburst in the import trade was the result of a number of forces which combined to make the eight years following the Civil War one of the greatest "boom" periods in our history. On December 30, 1861, specie payments were suspended throughout the country; and with the act of February 25, 1862, the government began its issues of inconvertible paper currency. By January 17, 1863, the total amount authorized was \$450,000,000, and on June 30, 1864, the total amount outstanding was \$431,000,000. After a half-

¹ Gold and silver are not stated separately in our foreign trade statistics prior to 1864, but in the *Statistical Abstract of the United States* for 1909 the annual imports and exports are estimated back to 1850. It has seemed best in this table, for the sake of consistency in comparison, to present the combined figures for the entire period. The great bulk of the exports was of gold. See below, p. 222.

hearted attempt at contraction, by the act of April 12, 1866, under which \$44,000,000 of greenbacks were retired, contraction was abandoned, and greenbacks in circulation mounted from \$314,704,000 in the middle of 1869 to \$346,168,000 in 1872.

Extravagant issues of inconvertible paper, combined with heavy military expenditures and the destruction of economic goods inseparable from war, caused a violent rise of prices and intensified the speculative movement. So far as high prices represented mere depreciation of paper currency, they could not stimulate imports, since foreigners did not exchange commodities for paper but received payment in gold values. It is certain, however, that the speculative mania had raised gold prices above the European level, so that the inflow of commodities was greatly stimulated. Moreover, the financial extravagance of the government was paralleled by that of the people, an additional factor in inducing large imports.

Another distinctive feature of the period was railroad expansion. Within eight years from the termination of the war the railway mileage of the United States doubled, the total increase amounting to 31,800 miles. With the extension of the railway net there was a rush of population to the West, a movement which resulted in that remarkable growth of agricultural exports which characterized the next period of our study. To provide the means for this development European capital was drawn upon in a volume enormous for the time. These borrowings consisted in part of a demand for British construction materials for our new railroads. Imports of iron and steel railroad bars in the seven years 1866-72 amounted to 2,112,063 tons, or six times the total for the ensuing seven years (350,553 tons).

For the whole period 1850-73 the total exports of merchandise amounted to \$6,585,000,000 and the imports to \$8,125,000,000, giving an excess of imports of \$1,541,000,000, or an average excess of \$64,000,000 a year. This unfavorable balance on merchandise account was greatly reduced by our large exports of gold. Upon the opening of the California mines, our domestic gold output suddenly rose from insignificant proportions¹ to \$50,000,000 in 1850, about \$14,000,000 more than the annual average gold production of the world in the preceding decade. From 1851 to 1860, the aggregate production of gold in the United States was \$521,000,000, which was five or six times the estimated specie circulation of the country in any year before the discoveries in California. The money in circulation in 1850, including bank notes as well as specie, was no more than \$279,000,000, or about \$12 *per capita*. If the new gold could have been retained in the country, our currency would have risen to \$800,000,000, or \$25.8 *per capita*. Such a sudden inflation as this would have raised prices far beyond the level prevailing in other parts of the world, put an end to the exportation of

many products, and attracted imports from all quarters of the globe. Therefore, the new gold began to flow out of the country, after prices had been raised to a point at which the import trade could increase sufficiently to produce that result; and from 1851 to 1860 we exported a net balance of \$417,608,000. By 1860, our specie circulation had risen to \$228,000,000, while the issues of bank notes had grown to \$207,000,000, giving the country a supply of money that averaged \$13.85 *per capita*. With the suspension of specie payments in 1862 and the depreciation of the greenbacks, the outflow of gold in payment for imports was intensified. In 1864, when the premium on gold rose to the extraordinary height of \$1.85² (July), exports of gold rose to \$100,662,000, a figure not again equaled until the panic year of 1893. For the total period, 1850-73, gold exports amounted to \$1,165,699,000, and imports to \$203,234,000, giving a net outflow of \$962,465,000, which is \$40,333,000 a year. Including silver, the net outflow of specie was \$1,098,200,000, or an annual average of \$45,800,000. Subtracting this figure from the excess of merchandise imports previously given (\$1,541,000,000), the net balance of merchandise and specie is reduced to \$443,000,000, or an annual average of \$18,400,000.

Against this net balance are to be charged the invisible items of indebtedness, the chief of which are freight charges and foreign borrowings. The Civil War marked the passing of our merchant fleet. From that time on, the profits of shipping, which, as we have seen, had been the chief factor in maintaining the equilibrium of our foreign exchanges, ceased to be a credit item, and became gradually an important feature of our debit account. The change is noticeable on comparing the decade of the fifties with the remainder of our period. From 1850 to 1860, exports carried in American vessels exceeded imports brought to our shores in foreign vessels by \$1,329,100,000; and the freight earnings were \$330,000,000 by American ships (on \$2,196,300,000 exports carried) and \$87,000,000 by foreign ships (on \$867,200,000 imports carried), or a net credit to the United States of \$243,000,000. In 1862 there began a sale of American ships which increased in the three following years. The total sales in the period 1862-65 have been estimated at \$40,000,000.³ The decline of American carrying was abrupt. From \$279,083,000 of exports carried in American bottoms in 1860, the amount fell to \$179,973,000 in 1861, and by 1865 it had fallen to \$93,018,000. Thereafter it ranged from \$150,000,000 to \$200,000,000 during the remainder of the period. The total value of exports carried in American ships from 1861 to 1873 was \$2,085,100,000, while imports carried in foreign vessels increased to \$3,586,486,000. The freight charges earned by American ships were \$313,000,000 and those owed to foreign shipping were \$359,000,000. For the first time in our history as a nation, we had a net debit on

¹ From 1834 to 1847 the annual product had averaged less than \$1,000,000. In 1848 it suddenly rose to \$10,000,000, and in 1849 to \$40,000,000.

² That is, a dollar of gold sold for \$2.85 of paper.

³ Bates, *American Marine*, p. 150. Of 1,298,000 tons sold 1850-73, 825,000 were sold 1862-65.

freight account, amounting to \$46,000,000 for the thirteen years ending in 1873. Regarding the period 1850-73 as a whole, and taking into account the \$65,000,000 received for ships sold as well as the earnings of our ships in the fifties, we arrive at a net sum of \$262,000,000 receivable by the United States.

If we sum up the net balances of merchandise, specie, and shipping earnings, we find a total on the debit side of our balance of payments amounting to \$181,000,000. We turn now to the borrowings of foreign capital and the payments of interest. Foreign investments in the United States were estimated at \$222,000,000 by the Secretary of the Treasury in 1853.¹ By 1860 they were estimated, also by the Secretary of the Treasury, at \$400,000,000.² At the outbreak of war in 1861 great distrust in the future of the United States was felt by foreigners, and there was a considerable return of American securities in 1861-63,³ amounting to about \$200,000,000. But for the next ten years the movement of capital turned in the other direction. The federal government had incurred an interest-bearing debt of \$2,381,000,000, and state and local indebtedness had increased by some \$500,000,000. By 1868, according to *Hunt's Merchant's Magazine*, \$700,000,000 of United States bonds were held abroad, and these had not netted the American sellers more than 57½ per cent.⁴ Secretary McCulloch estimated the foreign investments, exclusive of railway stocks, at \$850,000,000. Altogether the amount of American securities held abroad was estimated at \$938,000,000,⁵ part of which Europe had bought at a discount. In the later sixties and early seventies occurred the great expansion of railroads already referred to, when 39,642 miles were constructed, with the aid of a large inflow of foreign capital. In 1869, David A. Wells put the total foreign investments of all sorts at \$1,400,000,000. Even if this estimate was too large in 1869, it is certain that not less than \$1,500,000,000⁶ of foreign investments had been made

by 1873; because the inflow of capital had been very rapid in the interval, amounting to \$100,000,000 in the first eight months of the latter year. From the figures given it appears that the net sum invested during the period 1850-73 was \$1,300,000,000 in nominal value representing an actual value of perhaps \$300,000,000 to \$400,000,000 less.

Against this sum is chargeable the annual payments of interest. This item can be only roughly approximated. In the early fifties, on about \$220,000,000 of foreign capital, interest at 6 per cent amounted to \$13,200,000 a year. By 1855, when the total of foreign capital was estimated at \$364,000,000,⁷ it may have been about \$22,000,000; and in 1860 on foreign capital of \$400,000,000, it was about \$24,000,000. When foreign securities were returned in 1861-63 it must have sunk to \$10,000,000. In 1869, Wells estimated interest at \$88,000,000; and on \$1,500,000,000 in the early seventies it must have been about \$90,000,000. These heavy payments, however, occurred only in the last six or eight years of the period. For the whole period the total interest charges may be estimated at \$904,000,000.⁸

Other items of the balance are of minor importance, and data are lacking regarding their amount. For the most important one, tourists' expenditures, some figures are available. They were estimated at the beginning of the period at more than \$15,000,000 a year.⁹ And in 1869 they were estimated by David A. Wells at \$37,000,000 a year.¹⁰ This increase, however, could not have occurred prior to or during the war; and for the whole period, it is probable that the balance on this account did not average more than \$24,000,000 a year, which gives a total of \$576,000,000.

From the figures given we draw up the following statement of our balance of payments for the period 1850-73.

THE BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES, 1850-73

(UNITS OF \$1,000)

	Credit	Debit
1. Exports of merchandise	\$6,585,000	
2. Exports of specie	1,425,427	
3. Freights earned by American shipping	643,000	
4. Sales of American ships	65,000	
5. Investments of foreign capital ..	1,000,000 *	
6. Immigrants	330,000 †	
1. Imports of merchandise		\$8,125,000
2. Imports of specie		327,262
3. Freights paid for foreign shipping		446,000
4. Interest payments on foreign capital invested in the United States		904,000
5. Tourists' expenditures		576,000
Total	\$10,048,427	\$10,378,262

* This is the nominal amount above stated (\$1,300,000,000) decreased \$300,000,000 to allow for the discount at which the securities were sold. It is possible that the allowance for discount should be \$400,000,000.

† There were some 6,600,000 immigrants admitted in this period.

¹ *House Report 296*, 27th Cong., 3d sess., March 2, 1843, p. 7.

² *Hunt's Merchant's Magazine*, October, 1868, p. 242.

³ David A. Wells, *Report of Special Commissioner of the Revenue*, 1869, p. xxvi.

⁴ October, 1868, p. 245. This is perhaps an excessive estimate of the depreciation of the whole volume of securities.

⁵ *Hunt's Merchant's Magazine*, October, 1868, p. 245.

⁶ *Commercial and Financial Chronicle*, February 24, 1872.

⁷ *Hunt's Merchant's Magazine*, December, 1857, p. 664.

⁸ This is estimated as follows. During the eleven years 1850-60, inclusive, the annual interest charge increased from about \$13,000,000 to \$24,000,000 and averaged about \$18,500,000. This gives a total of \$203,000,000 for these eleven years. After sinking to \$10,000,000 in 1861 the annual charge increased to \$88,000,000 in 1869, which gives an average charge of \$49,000,000 during these nine years and a total of \$441,000,000. This figure, however, is excessive because the bulk of the new capital came here after 1864. To allow for this fact we may decrease the estimate for the period by \$100,000,000, thus reaching the figure of \$341,000,000 for the nine years ending in 1869. From 1870 to 1873, inclusive, the annual charge averaged about \$90,000,000 or \$360,000,000 for the four years. The total thus computed is \$904,000,000 for the twenty-four years.

⁹ Kettell, *Eighty Years of American Progress*, 1, p. 244.

¹⁰ *Report of Special Commissioner of the Revenue*, 1869, p. xxxi. He deducts \$12,000,000 for the expenditures of foreigners in this country, reckoning \$1000 apiece for both classes of tourists. The total number of American citizens returning from abroad 1850-73 was 735,000. The total number of aliens not immigrants, i. e., foreign tourists arriving 1850-73 was about 157,000.

Aside from the very large exports of specie, the outstanding fact shown by the table is the predominant position of foreign borrowings and interest payments in our international balance. Borrowings on so extraordinary a scale could not continue long, and the burden of the annual interest charge had grown so large by the early seventies that only the great volume of the new annual capital borrowings could prevent it from upsetting the balance. In 1869, Mr. Wells had prophesied that exports of merchandise must increase, sooner or later, in order to pay for the interest accruing to European capitalists. More explicitly still, in 1873, Professor Cairnes wrote:

"These considerations lead me to the conclusion that the present condition of the external trade of the United States is essentially abnormal and temporary. If that country is to continue to discharge her liabilities to foreigners, the relation which at present obtains between her exports and imports in her external trade must be inverted. . . . This, it seems to me, is a result which may be predicted with the utmost confidence. The end may be reached by an extension of exportation, or by a curtailment of importation, or by combining both these processes, but by one means or the other reached it will need to be."

Proceeding a step further, Cairnes showed that the excess of exports over imports could not be established unless the high prices then ruling in this country should be materially lowered, or prices in Europe should show a considerable advance; and he considered it probable that the change would come about by a fall of prices in the United States sufficient to make importation more difficult and exportation more profitable. Such a decline of the price level would probably "come with a crash," so that he looked forward "to the immediate future of American trade as a period of much disturbance and fluctuation, culminating, it is possible, from time to time, in commercial crises."¹

E. FIFTH PERIOD, 1874 TO 1895: EXCESS OF EXPORTS DEFINITELY REESTABLISHED BY GROWTH OF INTEREST CHARGES ON FOREIGN INDEBTEDNESS

Before Cairnes' book appeared, his predictions were in process of literal fulfillment. The crisis of 1873 was world-wide. It began in May with a panic in Vienna, extended to Germany and England, and in September broke out in New York. European lending ceased, railroad construction was halted, prices fell to a point where imports must diminish and exports expand. In

¹ *Some Leading Principles of Political Economy*, pp. 368-372.

² (These figures are for merchandise only.)

	Exports	Imports	Balance
1873.....	\$522,480,000	\$642,136,000	- \$119,656,000
1874.....	586,283,000	567,406,000	+ 18,877,000

³ Excluding silver, the balance was also unfavorable in 1889, by \$2,730,277.

⁴ Total excess of exports 1874-95	\$2,492,751,000
" " " " 1876-81	1,234,406,000
" " " " for the other 16 yrs. .	1,258,345,000
Average excess of exports, 1874-95	113,307,000
" " " " 1876-81	205,734,000
" " " " for the other 16 yrs.	78,647,000

1874, for the first time since 1862, exports exceeded imports.² Before 1874 the balance of trade had been generally unfavorable; from that year on, the balance has been favorable except in three years, 1875, 1888, and 1893.³ The year thus marks a turning point in our foreign trade.

The following table shows the annual trade balances for the period 1874-95. Silver is included with merchandise; the gold balance is stated separately.

UNITED STATES BALANCE OF TRADE, 1874-95
(UNITS OF \$1,000,000)

Fiscal years †	Exports *	Imports *	BALANCE		NET MOVEMENT OF GOLD	
			Excess of exports (+)	Excess of imports (-)	Excess of exports (+)	Excess of imports (-)
1874	619	576	43	....	14.5	
1875	539	540	....	2	53.3	
1876	566	469	97	....	23.2	
1877	632	466	166	....	.3	
1878	719	454	266	....	....	4.1
1879	731	460	270	....	....	1.0
1880	849	680	169	....	....	77.1
1881	919	653	266	....	....	97.5
1882	767	733	35	....	....	1.8
1883	844	734	110	....	....	6.1
1884	767	682	85	....	18.3	
1885	776	594	182	....	....	18.2
1886	709	653	56	....	22.2	
1887	742	710	33	....	....	33.2
1888	724	739	....	15	....	24.6
1889	779	764	15	....	49.7	
1890	893	810	82	....	4.3	
1891	907	863	44	....	68.1	
1892	1063	847	216	....	.5	
1893	888	890	....	2	87.5	
1894	943	668	274	....	4.5	
1895	855	752	103	....	30.1	
Total	17231	14738	2493 Net Exp'ts		111.9 Net Exp'ts	
Yearly Average	783	670	113 Net Exp'ts		5.1 Net Exp'ts	

* These figures include exports and imports of silver.

† July 1 to June 30.

Before examining the balances for the whole period, attention is called to the late seventies and early eighties. The first column shows an extraordinary expansion of the exports. From 1875 to 1881 exports expanded \$353,505,000, or 63 per cent. For the six years 1876-81 the excess of exports over imports totaled \$1,234,406,000 and averaged \$205,734,000. The total excess was about one-half of the total for the entire period 1874-95, and the average almost three times that of the other sixteen years.⁴

These large balances were due mainly to the unprecedented expansion of agricultural exports, which at that period comprised from three-fourths to four-fifths of the total. The expansion was particularly marked in 1880 and 1881. In the summer of 1879 harvest failures in Europe, together with good crops at home, enabled our farmers to export unprecedented quantities of

breadstuffs and other products at high prices. Exports of wheat and wheat flour increased 162 per cent from 1875 to 1881; exports of meat and meat products doubled; exports of cotton increased 30 per cent; agricultural exports as a whole about doubled.¹

These heavy exports induced a large net inflow of gold, totaling \$183,544,000 from 1878 to 1884. Of this, \$174,585,000 came in 1880 and 1881, the years when exports reached their highest level prior to 1890. The gold imports insured the successful maintenance of specie payments, resumed in 1879. Coming in such a heavy stream into a gold-producing country, normally an exporter of gold, they indicate beyond question that in the years when exports were largest and the trade balance most favorable, 1879-81, the United States had a surplus of credits on all international transactions. The demand for our exports, combined with new capital borrowings in this period, was so large as more than to offset the total outgoings for imports plus invisible items of indebtedness.

These years were of course exceptional. In general, the more modest favorable balances characteristic of the period 1874-95, served for the payment of our indebtedness on the various invisible items of international exchange. Summing up the figures of merchandise trade for the period, exports amounted to \$17,231,064,000, as against \$14,738,313,000 of imports, leaving an excess of exports of \$2,492,751,000, or an average excess of \$113,307,000, merchandise and silver. The normal flow of gold was outward, but moderate; the total excess of exports being \$111,903,000, or an average of \$5,087,000 a year. The total excess of exports of merchandise and specie was \$2,604,654,000, an average of \$118,394,000 a year. It is this amount, plus new foreign capital invested in this period, against which the items of invisible indebtedness are chargeable.

The chief item of indebtedness was the payment of interest charges on foreign capital. To approximate the amount of these payments we must follow the course of the investment account, as indicated by international financial conditions, by the cyclical movement of business, and by such statistical estimates as appear reliable. The *Commercial and Financial Chronicle* of May 18, 1872, estimated the total of American securities held in Europe to be \$1,500,000,000. This estimate agrees with that of David A. Wells, and may be taken as an approximately accurate statement of the foreign investments at the time of the panic of 1873. During the period of depression succeeding the crisis, there was a

considerable return of securities from Europe, the withdrawals amounting in 1876-78 to \$300,000,000, of which \$150,000,000 pertain to the year 1878.² In 1879, as already noted, occurred the revival and the marked expansion of agricultural exports. Prosperity among the farmers and the grain carrying railroads made business brisk for merchants and manufacturers of raw materials. Railroad construction began afresh, 28,253 miles of new road being built in the three years 1880-82. Though the favorable reaction was felt more in the United States than in Europe, the railroad boom soon attracted foreign capital,³ as had that preceding 1873. By 1883 United States railroad securities quoted in London amounted to \$1,535,000,000;⁴ adding federal and state bonds, municipal securities, land, mining, and industrial stocks, the total of foreign investments could not have been less than \$2,000,000,000. In the last half of 1881 the tide turned. The crops of that year represented a loss of two hundred million bushels of wheat, five hundred million bushels of corn, and over a million bales of cotton. The immoderate railroad construction, the feature of which was the paralleling of old established lines, ended in a prolonged period of liquidation, which reached its low point in 1884. Rate cutting and rate wars became the distinctive feature of the industrial situation. From July, 1882, to July, 1885, there was a reversal of the security movement, similar to that following the panic of 1873, though much smaller in volume. From bankers' records, the *Chronicle* computed an average withdrawal of capital of \$25,000,000 a year.⁵ Statistical indices of the volume of business show 1885 to have been the dullest year of the decade. Then came a revival, so prompt that the *Chronicle* declared 1886 to be the best business year since 1880.⁶ Rapid railway construction began again, the annual increase of mileage rising from 2,975 miles in 1885 to 12,876 in 1887. This expansion in United States railroads coincided with a great wave of British investments. Following the gold and diamond discoveries in South Africa, in 1884-85, there developed a mining boom, and then a whole series of speculative undertakings in other countries, notably Australia, Argentina, and the United States.⁷ England had entered upon a period of active prosperity. Accumulations of capital came forward freely for investment. British promoters started a series of new companies. Beginning at home with the conversion of private enterprises into joint stock companies, they soon undertook similar enterprises in Germany, Austria, Argentina, and the United States.⁸ Trust and investment companies were formed to underwrite, and speculate in, the stocks of other companies. Large amounts of American railway securities were placed in England. Also, London caught the infection of the American "silver boom," and purchased large blocks of silver stock, in the hope that the Sherman Silver Purchase Act of 1890 would enhance the value of the white metal.

Then came a sharp reaction. Most heavily of all, British capital had been pouring into Argentina. In

(In thousands of dollars)

	1875	1881	Increase
1 Exports of wheat and wheat flour .	82,320	212,746	130,426
Exports of meat and meat products	67,955	134,254	66,299
Exports of cotton	190,639	247,696	57,057
All agricultural exports	389,410	738,124	348,714

² Data furnished by F. D. Graham, Rutgers College.

³ See C. K. Hobson, *The Export of Capital* (1914), p. 147.

⁴ Sir George Paish, *Trade Balance of the United States*, National Monetary Commission, 1910, p. 173.

⁵ *Commercial and Financial Chronicle*, 60², p. 633.

⁶ See W. C. Mitchell, *Business Cycles* (1913), p. 46.

⁷ C. K. Hobson, *The Export of Capital*, pp. 147 et seq.

⁸ W. C. Mitchell, *Business Cycles*, p. 47.

November, 1890, the Argentine government announced its inability to meet interest payments. Baring Brothers, of London, were forced to close their doors. There developed a critical situation in England, and New York dealers were daily receiving heavy selling orders from London. Gold exports were heavy. The New York banks held less than the legal 25 per-cent reserves in eleven out of the twenty weeks from the middle of August to the end of the year. Call loan rates rose frequently to 6 per cent per annum, plus one-half per cent a day. From January to July, 1891, sterling exchange in New York stood almost continuously at the gold export point. By the phenomenal harvests and exports¹ of 1892 a crisis was deferred until 1893.

From the fall of 1890 to the end of 1896, the net security movement was heavily against the United States, the net annual withdrawal averaging \$60,000,000,² or a total of about \$300,000,000. With foreign capital at about \$2,000,000,000 in 1883, a figure reduced by about \$100,000,000 by the end of 1885, the heavy inflow of the late eighties must have brought the total to almost \$3,000,000,000. Allowing for the later withdrawals, the amount of foreign investments in 1895, the end of our period, was about \$2,500,000,000. This figure appears in some of the estimates of the time. That a smaller figure is out of the question is shown by the careful investigation of N. T. Bacon for the year 1899.³

From the figures given for foreign capital we may estimate the interest payments. The rate of interest decreased from 6 to about 4 per cent as the years passed. Wells' estimate of the interest charge for 1869 was \$80,000,000. By 1878, in consequence of the withdrawals of capital, the interest had fallen to not more than \$60,000,000; by 1883 it had risen to over \$80,000,000; in 1890 it may have been \$110,000,000. Several estimates of the interest charge were made in 1895; they range from \$90,000,000 to \$100,000,000. The most careful investigation is that of the *Journal of Commerce*, which puts the interest charge at \$90,000,000.⁴ For the whole period, 1874-95, the average interest charge thus appears to have been about \$85,000,000 a year, or a total of \$1,870,000,000. If we deduct \$1,000,000,000 of new foreign investments made within the period, the net outgoings on account of foreign investments were \$870,000,000, or an average of about \$39,500,000 a year.

The excess of the annual interest charge over new annual investments is the chief item of "invisible" indebtedness which was annually paid off by the excess

of merchandise exports. The other items now require consideration.

Our foreign merchant marine showed a continual decline during the period, so that imports brought in foreign vessels exceeded exports carried in American ships by \$8,759,703,000. The freight charge upon this sum constitutes the net amount payable by America for the use of foreign ocean carriers. Estimates vary as to the proportion which freight charges bear to the value of cargo. Bates⁵ puts the percentage at 15 per cent in the case of exports and 10 per cent for imports. Coming from a former United States Commissioner of Navigation and a former manager of the *Inland Lloyd's Register*, this statement is entitled to careful consideration. Using Bates' figures, we should have for the whole period \$1,107,193,000 as the earnings of foreign vessels in the import trade, and \$346,834,200 as the earnings of American vessels in the export trade,⁶ or a net debit on freight account of \$760,359,000, which represents a yearly average of about \$34,562,000. It is probable, however, that this figure should be considerably reduced. In the first place, it makes no allowance for expenses of foreign vessels in American ports. Moreover, the percentages of 10 per cent and 15 per cent, though probably correct for earlier periods, take no account of the very marked reduction in ocean freight rates after 1870. C. K. Hobson's freight index⁷ for Great Britain shows a decline from 248.2 in 1873 to 88.2 in 1896. In other words, freight rates to and from Great Britain declined about 64 per cent. The British Board of Trade index, begun in 1884, shows a decline from 116.2 in 1884 to 75.3 in 1895. The New York to Liverpool wheat rate decreased from eight and seven-sixteenths pence in 1875 to two and nine-sixteenths pence in 1895, a decrease of 61 per cent.⁸ The average export price of wheat in New York in 1896 was \$.65 per bushel. The percentage of the ocean freight rate to the value was thus 7.7 per cent. For cargoes combining small bulk with high value the rate would be less.

In view of this striking decrease in rates, the statement that freight costs equaled 10 per cent and 15 per cent of the value of imports and exports respectively, if acceptable for the early seventies, appears too high for the nineties. In his computation of the United States balance of payments for the fiscal year 1908-09, Sir George Paish estimated that, on \$1,000,000,000 excess of imports in foreign vessels over exports in American vessels, the net amount of freight payable by the United States, after allowing for port expenses, was \$25,000,000, or 2.5 per cent of the value carried. A

¹ Exports touched a new high water mark in 1892, \$1,063,088,000.

² *Commercial and Financial Chronicle*, 60², p. 632.

³ See text, p. 229; *Yale Review*, November, 1900, pp. 265-285.

⁴ *New York Journal of Commerce and Commercial Bulletin*, July 8, 1895. See too the *Commercial Year Book*, 1896, pp. 225 et seq.; *Commercial and Financial Chronicle*, 60², p. 770; and A. S. Heidelbach in the *Forum*, February, 1895, p. 647.

⁵ W. W. Bates, *American Marine; The Shipping Question in History and Politics* (1893), p. 20.

⁶ Exports in American ships, 1874-95, were \$2,312,228,000; imports in foreign ships were \$11,071,930,000.

⁷ See *The Export of Capital* (1914), p. 182. Hobson has con-

structed for the period 1870-1912, for Great Britain, an index of outward freights, an index of inward freights, and from these two a mean index. The outward index is based on six quotations for each of twenty-two selected routes. The inward index is the mean between wheat rates on four different ocean routes: three of these rates are averages of six rates in each year; the fourth is the New York to Liverpool rate, given in the *Statistical Abstract of the United States*. The other data are from Mitchell's *Marine Register* and *Lloyd's Shipping Gazette*. Hobson's "inward" index shows a decline from 329 in 1873 to 78.5 in 1895; the outward index declines from 167.3 in 1873 to 98 in 1896.

⁸ *Statistical Abstract of the United States*, 1916, p. 318.

computation made in 1895 by the *New York Journal of Commerce*, based on ocean rates for sixteen imported commodities, showed the average ratio of freight to value of goods to be 3.6 per cent.¹

From the evidence given, it is estimated that the ratio of freight charges to value of goods carried during the period 1874-95 decreased from about 12 to about 5 per cent, and for the whole period averaged 8 per cent. On this basis the balance owed on account of freight charges would amount to \$700,776,000, or an average of \$31,854,000. Deducting one-fifth for expenses in port, a heavy item which has been estimated as high as one-third of gross freight earnings,² we obtain for the gains of American vessels \$148,000,000; for those of foreign vessels \$708,000,000; making a net indebtedness of \$560,000,000, or \$25,500,000 a year.

A third invisible item of indebtedness was the expenditure of American tourists abroad. At the beginning of the period such expenditures were estimated at \$37,000,000. For the year 1894, we have the computation of the *New York Journal of Commerce*. This computation, which is based on an examination of actual records of letters of credit issued in New York and other cities, shows the following results:

TRAVELERS' CREDITS, 1894

Letters of credit issued per annum by big New York issuers	\$55,000,000
Minor issues in New York	2,000,000
Issued directly in other cities	3,000,000
Year's total for United States, about	\$60,000,000
Average of credits issued and not used	22 per cent
Net amount transferred to other countries, about	\$47,000,000

These figures would be somewhat reduced by European letters of credit expended in America. As an average for the whole period, the net tourists' expenditures probably did not exceed \$35,000,000 a year.

These were the chief items of indebtedness. For immigrants' remittances, an item which in the last period before the Great War came to occupy a position of major importance, there are few data available. It is probable that they were not very large prior to the late nineties. The number of immigrants in the period 1901-10 was about as large as that from 1881 to 1900. Moreover, the immigrants were mainly from northern Europe in the earlier period; and such computations as have been made³ show that the great bulk of immigrants' remittances comes from the Italians and others from southern Europe. International money orders issued in the United States, which are sometimes used as a rough guide in estimating immigrants' remittances,⁴ did not exceed \$10,000,000 a year prior to 1888, and for most years averaged \$6,000,000 to \$7,000,000.⁵

¹ *New York Journal of Commerce and Commercial Bulletin*, July 8, 1895; for the year 1892 it computes the net indebtedness of the United States on freight account, without deducting port expenses, as \$22,877,000.

For immigrants' remittances, and other miscellaneous items of debit, we may allow an average sum of \$20,000,000 a year.

Bearing in mind that the items that have been given are approximate only, we may draw up the following statements of what our excess of exports of merchandise and specie paid for in the period 1874-95. The first table presents in full the various items of the balance of international payments. The second gives the "balance of indebtedness," showing the net movement on balance of each item of credit or debit.

THE BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES, 1874-95

(UNITS OF \$1,000)		
	Credit	Debit
1. Exports of merchandise and silver	\$17,231,064	
2. Exports of gold	809,475	
3. New capital borrowings	1,000,000	
4. Freight charges receivable	148,000	
1. Imports of merchandise and silver		\$14,738,313
2. Imports of gold		697,572
3. Interest charge		1,870,000
4. Freight charges payable		708,000
5. Tourists' expenditures		770,000
6. Immigrants' remittances and miscellaneous items		440,000
Totals	\$19,188,539*	\$19,223,885

* On account of the migratory nature of the immigration and the inadequacy of the statistics in this period the net amount of cash brought in by immigrants cannot be estimated closely enough to warrant inserting it in the table. Ignoring the sums carried away by departing aliens we may estimate the amount brought in at \$20 apiece for 8,995,000 immigrants, a total of \$180,000,000.

THE BALANCE OF INTERNATIONAL INDEBTEDNESS OF THE UNITED STATES, 1874-95

(UNITS OF \$1,000)		
Credit	Total	Annual average
Excess of exports of merchandise and silver	\$2,492,751	\$113,307
Excess of exports of gold	111,903	5,087
New capital borrowings	1,000,000	45,454
Total	\$3,604,654	\$163,848
Debit		
Interest charge	\$1,870,000	85,000
Freight charge	560,000	25,454
Tourists' expenditures	770,000	35,000
Immigrants' remittances and miscellaneous items	440,000	20,000
Totals	\$3,640,000	\$165,454

As a picture of our international situation at the end of the period, we present a balance of payments for the

² *Ibid.* See, too, C. K. Hobson, *The Export of Capital*, p. 177.

³ See below, p. 230.

⁴ For instance, in the *Canadian Cost of Living Report* of 1915.

⁵ *Statistical Abstract of the United States*, 1916, p. 726.

year 1894, the year for which the most complete and reliable estimates are available:

THE BALANCE OF INTERNATIONAL PAYMENTS
OF THE UNITED STATES, 1894 *

(UNITS OF \$1,000)

Credit		
1. Exports †	.....	\$942,591
2. Exports of gold	.....	76,978
3. New capital borrowings	.....	nil
		\$1,019,569
Debit		
1. Imports †	.....	\$668,281
2. Imports of gold	.....	72,449
3. Securities returned from Europe..	.....	60,000
4. Interest payments	.....	95,000
5. Net freight payments	.....	22,877
6. Tourists' expenditures	.....	47,000
7. Immigrants' remittances and other items	.....	40,000
		\$1,005,607

* Fiscal year, July 1, 1893-June 30, 1894.

† Merchandise and silver.

F. SIXTH PERIOD, 1896 TO 1914: EXCESS OF EXPORTS
INCREASED BY TOURISTS' EXPENDITURES
AND IMMIGRANT'S REMITTANCES

During the last period prior to the Great War the balance of international payments was, in its essential characteristics, similar to that of the period just reviewed. The main difference was that the "favorable" trade balance was larger; the average excess of exports, which in the earlier period was about \$113,000,000, became for the later period about \$487,000,000. This increase was due in some measure to the increase in the annual interest charge on foreign capital; to a greater extent it was due to the extraordinary growth of tourists' expenditures and immigrants' remittances.

The following table shows the annual balance of merchandise trade and the net annual gold movement for the period.

The table shows for the whole period exports of \$32,182,126,000 and imports of \$22,866,028,000, leaving a favorable trade balance of \$9,262,098,000, or an average of \$487,479,000 a year. The most notable fact, as regards merchandise and silver, is the extraordinary growth of the balance in the late nineties. From \$134,647,000 in 1896, a balance about \$13,000,000 larger than that of the average of the preceding twenty-two years and about \$32,000,000 larger than that of the preceding year, the balance increased to about \$640,000,000 in 1898. This balance was exceeded, prior to the war, only by those of 1901, 1908, and 1913; it was due in part to a diminution of imports, but mainly to the marked and sudden expansion of exports. Exports increased from about \$943,000,000 in 1896 to about \$1,287,000,000 in 1898, and by 1901 had reached \$1,552,000,000.

The late nineties mark a change in the character of our exports. In foreign trade, the year 1895 was the low-water mark of the depression following the panic of

UNITED STATES BALANCE OF TRADE, 1896-1914

(UNITS OF \$1,000,000)

Fiscal Years †	Exports *	Imports *	BALANCE		NET MOVEMENT OF GOLD	
			Excess of exports (+)	Excess of imports (-)	Excess of exports (+)	Excess of imports (-)
1896	943	809	135	....	78.9	
1897	1113	795	318	....	....	44.7
1898	1287	647	640	....	....	105.0
1899	1283	728	556	....	....	51.4
1900	1451	885	566	....	3.7	
1901	1552	860	692	....	....	12.9
1902	1431	932	500	....	....	3.5
1903	1464	1050	415	....	2.1	
1904	1510	1019	491	....	....	17.6
1905	1567	1145	422	....	38.9	
1906	1810	1271	539	....	....	57.6
1907	1938	1477	460	....	....	63.1
1908	1919	1239	680	....	....	75.9
1909	1719	1356	363	....	47.5	
1910	1800	1602	198	....	75.2	
1911	2114	1573	541	....	....	51.1
1912	2269	1700	569	....	8.4	
1913	2537	1854	683	....	8.6	
1914	2420	1924	495	....	45.5	
Total	32128	22866	9262	Net Exp'ts	173.9	Net Exp'ts
Yearly Aver'ge	1691	1203	487	Net Exp'ts	9.2	Net Exp'ts

* These figures include exports and imports of silver.

† July 1 to June 30.

1893. In 1896 there was an increase of about \$83,000,000 in exports and of about \$48,000,000 in imports, despite the fact that, in general business, conditions were almost as depressed as in 1894. In July 1897 the trend of prices, downward after 1873, reached its lowest point. The increase in exports in 1896 was mainly in manufactures; it was the beginning of an extraordinary expansion in this branch of exports. Wages were low and material abundant, but the depression of prices after 1893 and the sluggishness of the home market had caused stocks to pile up. This was a condition ideal for export. We began to sell manufactured products not merely in the neutral markets but in Continental Europe. Exports of manufactures increased from \$206,000,000 in 1895 to \$258,000,000 in 1896. Exports of iron and steel goods increased 28 per cent. Then in 1897 began an enormous outburst of exports, to which both manufactures and agricultural products contributed. In November 1896 the Indian wheat crop failed. In 1897 the European wheat crop fell short of 1896 by 350,000,000 bushels — a loss of 30 per cent,¹ while the crop in the United States ran 103,000,000 bushels ahead of 1896. Exports of wheat and wheat flour increased from \$92,000,000 in 1896 to \$116,000,000 in 1897, and reached their high point in 1898, at \$215,000,000.² Even more extraordinary was the expansion of exports of manufactures. From \$258,000,000 in 1896

¹ Year-book for 1898, U. S. Department of Agriculture, p. 686.

² Statistical Abstract of the United States, 1916, p. 685.

they increased to \$311,000,000 in 1897, \$324,528,000 in 1898, \$380,000,000 in 1899, and \$485,022,000 in 1900.¹ In 1892, manufactures constituted 18 per cent of total exports, in 1895 25 per cent, in 1900 35 per cent.² Exports of iron and steel products rose from \$32,000,000 in 1895 to \$122,000,000 in 1900.³ It was at this time, and because of our exports of manufactures, that there arose in Europe the agitation against the "American invasion."

In the late nineties the United States balance of international payments was truly "favorable." The situation was strikingly parallel to that of 1879-81, already reviewed. In both cases, our exports were so large as to more than equal the total of indebtedness on account of the imports plus the invisible items of the balance. No other explanation can account for the very large and continuous net inflow of gold, sustained over several years, which occurred in these periods. The table on page 228 shows a heavy net gold import in 1897, 1898, and 1899, amounting in all to \$201,072,000. As in the earlier period the large imports of gold made possible the resumption of specie payments, so these gold imports of the late nineties insured the success of the Gold Standard Act in 1900. This act, besides requiring the establishment of a fund of \$150,000,000 of gold to insure redemption of the notes of the government, created a new demand for cash reserves by the facilities which it gave for the establishment of new national banks. The increase of government paper money, except certificates against deposited gold or silver, having been stopped in 1893 by the repeal of the Silver Purchase Act, the new demand for reserve money was largely dependent on imported gold.⁴

In general, the gold movement in the period 1896-1914 was erratic, years of net gold imports alternating with years of net gold exports. In almost every instance, the inward movement occurred in years when merchandise exports were unusually large. This was notably the case in 1906-08, and again in 1911. The total for the whole period shows that the United States not only retained the annual product of its mines, amounting to \$1,574,499,000,⁵ but had a net import of \$173,902,000. This large increase of our gold supply was, in the opinion of most economists, a major cause of the rising trend of prices after 1896.

To sum up the account of merchandise and specie, this period began with an extraordinary expansion of exports, raising the balance of trade to a new level, which has since been pretty consistently maintained. For the whole period the net excess of exports of merchandise and specie was \$9,088,196,000, or an annual average of \$478,326,000. Against this amount are to be charged the invisible items. As has been said, the main features of our balance of payments on its debit side were first, the increase of the annual interest charge,

and second — and most important for this period — the striking growth of tourists' expenditures and immigrants' remittances. Since for all of these items more and better data are available for this period than for those preceding, a narrative of the course of investment and of other international currents is less necessary. We may confine ourselves to a summary analysis of the data at hand.

In 1899, Mr. N. T. Bacon⁶ made a first hand study of foreign investments in the United States. His investigation was made in New York, London, Paris, Amsterdam, Frankfurt, and other cities, and with the aid of J. P. Morgan & Co. and other bankers on this side, and of leading European financiers. Mr. Bacon found that the vast mass of foreign investments was in railroad securities. Foreigners had virtually none of our industrial securities, or of our state, county, or municipal bonds. Only infinitesimal amounts of the capital of our national and state banks were owned abroad, except as held by Americans resident in Europe. The amount of foreign capital in real estate mortgages was also small. Prior to 1893 there had been large investments of this nature, made chiefly through the Lombard Investment Company and similar corporations, but during the panic of 1893 many of these companies were forced into liquidation by the marked shrinkage in the value of farm lands, and British capital in real estate was mostly withdrawn. There were also considerable sales of Dutch real estate holdings. Mr. Bacon's summary statement of our foreign indebtedness on investment account, as of January 1, 1899, is as follows:⁷

	Cr.	Dr.
To Great Britain .....	.....	\$2,500,000,000
To Holland .....	.....	240,000,000
To Germany .....	.....	200,000,000
To Switzerland .....	.....	75,000,000
To France .....	.....	50,000,000
To Belgium .....	.....	20,000,000
To rest of Europe .....	.....	15,000,000
To Cuba .....	.....	30,000,000
To rest of America and China .	.....	15,000,000
To life insurance .....	.....	185,000,000
From Europe	\$10,000,000	
From Canada	150,000,000	
From Mexico	185,000,000	
From Cuba	50,000,000	
From other Antilles	10,000,000	
From Latin America .	45,000,000	
From Pacific, China, and Japan.	5,000,000	
From life insurance guarantee investments	45,000,000	
Totals	\$500,000,000	\$3,330,000,000
Net indebtedness .....	.....	2,830,000,000

Foreign investments in the United States amounted to \$3,330,000,000 and American investments abroad to \$500,000,000, leaving a net indebtedness of \$2,830,000,000. American investments abroad were insignificant until the late nineties. In 1900, the year after Mr. Bacon's investigation was made, there was a marked influx of English, Swedish, and German loans. From

¹ *Statistical Abstract of the United States*, 1916, p. 695.

² *Ibid.*, p. 695. ³ *Ibid.*, p. 713.

⁴ See A. D. Noyes, *Forty Years of American Finance* (1909), p. 272.

⁵ *Statistical Abstract of the United States*, 1916, p. 711.

⁶ *Yale Review*, November, 1900, pp. 265-285. ⁷ *Ibid.*, p. 276.

July to November they amounted to \$60,000,000;¹ in the twelve months after March 1900, to no less than \$118,000,000. It is probable, however, that even in this year the net capital movement was toward the United States, rather than away from it.

Later investigations leave no doubt that for the whole period 1896-1914 the net flow of capital investment was decidedly into the United States. At the end of 1908 the securities of American railways quoted in the London Stock Exchange "official list" were of the nominal value of \$7,500,000,000. Besides these there were a large number of American industrial and other securities quoted in London which brought the total to over \$9,000,000,000.² Of this vast amount only a portion was held in Great Britain. According to Sir George Paish in his study for the United States National Monetary Commission of 1910, Great Britain possessed about \$3,500,000,000 of American securities, Germany \$750,000,000, Holland \$750,000,000, and France \$500,000,000. In the aggregate, he puts the amount of European capital invested in permanent securities in the United States at approximately \$6,000,000,000.³ To this is added the floating loans made by Europe to America. These loans are made chiefly in the spring and summer months in anticipation of the exports of produce in the fall months, when they are largely paid off. Paish estimated the amount of this floating debt, in the form of produce bills, finance bills, loans against securities, overdrafts, and the like, at about \$400,000,000, on the average; and stated the total amount of capital borrowed by the United States, including both fixed investments and floating loans, as \$6,500,000,000.

Since the outbreak of the Great War there have been various estimates, by our leading financiers and financial journals, of the amount of American securities held abroad in 1914. On the basis of a compilation by Dow, Jones & Co. from the returns of 114 corporations in the United States, the total foreign investment was estimated to be in excess of \$5,000,000,000,⁴ of which European holdings of railroad securities constituted \$4,000,000,000. All of the estimates that have been given put the total at \$4,000,000,000 to \$5,000,000,000.⁵ In the absence of any evidence as to large withdrawals of capital since 1908, it is probable that Paish's estimate is an overstatement; and that for the whole period 1896-1914, foreign capital in the United States increased from about \$2,500,000,000 to about \$4,500,000,000. Against this is to be placed American capital invested abroad, which was put by N. T. Bacon⁶ at \$500,000,000 in 1899 and by Sir George Paish⁷ at \$1,500,000,000 in 1908. For the whole period it is

probable that the inward flow of capital amounted to about \$2,000,000,000, and the outward flow to about \$1,000,000,000, leaving a net increase of \$1,000,000,000.

Interest payments on foreign capital were estimated by Paish as \$300,000,000, in 1908. In 1900, with foreign investments of over \$3,300,000,000, as shown by Bacon's investigation, interest payments were probably not less than \$125,000,000. For the whole period, interest on foreign capital probably averaged about \$200,000,000 a year, by conservative estimate; and incoming interest payments on American capital invested abroad, which as we have seen increased to \$1,500,000,000, probably averaged \$40,000,000, leaving a net annual outflow on interest account of \$160,000,000 a year.

Even more important than the interest charges in this period were the expenditures by American tourists in foreign lands and the remittances of savings to the home countries by immigrants. Tourists' expenditures increased markedly as a consequence of the wave of prosperity in the late nineties. The number of American citizens returning to the United States from other lands increased from 93,602 in 1898 to 157,050 in 1901, 167,227 in 1905, 200,447 in 1908, and 286,604 in 1913.⁸ From the data obtainable as to the expenditures of these tourists, Sir George Paish estimated that the sum expended in 1908 approximated \$1,000 per person, giving an aggregate of \$200,000,000. In that year, the number of European tourists arriving in the United States, other than those passing through to Canada, was about 30,000; at \$1,000 per person, their expenditures aggregated \$30,000,000, leaving a net balance of about \$170,000,000⁹ a year owed by the United States to cover tourist expenditures. This sum does not include the amounts expended for works of art, jewelry, clothing, and the like, which are declared at the customs and are included in the value of the goods imported into the United States. That Paish's estimate is conservative is indicated by *Bradstreet's* computation of 1914, which takes the moderate average expenditure of \$500 per person, and yet puts the total annual outgo at about \$175,000,000.¹⁰

No less striking was the growth of immigrants' remittances. The most thorough-going investigation of this item is that of C. F. Speare¹¹ for the year 1907. It is based on an inquiry among the small foreign bankers through whom remittances of this sort are chiefly made, and is supplemented by reference to the amounts of international postal orders annually issued by the United States post office. These postal orders show a surprising increase after 1900. In 1885 they amounted

¹ *Yale Review*, November, 1900, p. 285.

² Sir George Paish, *Trade Balance of the United States*, National Monetary Commission, 1910, p. 174.

³ *Ibid.*, p. 175.

⁴ *Bradstreet's*, October 24, 1914, p. 690. Cf. the *Statist*, January 8, 1916, p. 61, 62, where British investments in the United States are given as follows:

Railroad securities	£618,000,000
Other investments	£145,000,000
	£763,000,000

⁵ See for instance T. W. Lamont, *Boston Herald*, December 12, 1918.

⁶ *Yale Review*, November, 1900, p. 276.

⁷ *The Trade Balance of the United States*, National Monetary Commission, 1910, p. 176.

⁸ *United States Statistical Abstract*, 1916, p. 111.

⁹ Sir George Paish, *The Trade Balance of the United States*, National Monetary Commission, 1910, pp. 178-180.

¹⁰ *Bradstreet's*, November 21, 1914, p. 754.

¹¹ *North American Review*, January, 1908, pp. 106-116.

to only \$6,840,000, in 1895 to \$12,906,000, and in 1900 to \$16,749,000. By 1907 they had reached \$84,080,711, and by 1911, \$109,604,639.¹ These postal orders are less important as an indication of the volume of immigrants' remittances than are drafts furnished by the small native banker. Through him goes the great bulk of all money sent out of the country on this account. In 1908 there were over 1,000 Italian bankers in the United States (about three hundred of whom were in New York), several hundred Hungarian bankers, chiefly in the East and in the coal and iron regions of the Middle West, and numerous Russian bankers in the New York foreign quarter. Half a dozen banking institutions in the Northwest, in Chicago, and in New York, handled the largest part of the remittances to Norway and Sweden. Altogether, the amount forwarded by drafts on Europe sold by these private concerns was in 1907 about \$125,000,000.² In addition, the express companies did a large business, calculated at about \$20,000,000 to \$25,000,000 a year. The total sum remitted to Europe Mr. Speare estimated at \$250,000,000, distributed as follows:

Italy	\$70,000,000
Austria-Hungary	65,000,000
Great Britain	25,000,000 *
Norway and Sweden	25,000,000
Russia	25,000,000
Germany	15,000,000
Greece	5,000,000
All others, including France, Switzerland, Belgium, and Denmark	10,000,000

* According to Sir George Paish, of the sum remitted to Great Britain, in 1906, about \$10,000,000 went to Ireland alone — \$5,500,000 through banks and over \$4,000,000 by the post office.

It is probable that Mr. Speare's total of \$250,000,000 is somewhat too large, as a statement of purely immigrant remittances. A portion of this money was remitted by persons returning to Europe to live, and should be set over against the item of cash brought to the country by newly arriving immigrants. Moreover, many of the money orders and drafts are sent to Europe in purchase of small parcels of goods, which figure in the merchandise imports; it is not possible to determine if a small remittance represents a purchase of commodities or merely a gift. Allowing for these factors, it is probable that immigrants' remittances in 1907 amounted to from \$150,000,000 to \$200,000,000.³

The other items of indebtedness in this period were much smaller than the three just reviewed. The chief of them was freight payments. In this period the foreign carrying trade in American vessels reached its

lowest point. In 1874, 27.2 per cent of our total foreign trade was in American vessels, in 1894, 13.3 per cent, and in 1902, 8.2 per cent. In 1914, the percentage was 9.4 in American vessels, and 90.6 in foreign vessels. For the whole period 1896-1914, imports in foreign vessels amounted to \$18,182,755,000, and exports in American vessels to \$2,154,551,000, leaving an excess, on which net outward freight payments were due, of \$16,028,204,000. Hobson's freight index, after the marked fall from the early seventies to the early nineties already referred to,⁴ shows but little further decline. The index number for 1895 is 75.8; to 1901 the trend is upward, to 103 in that year; thereafter to 1908 the trend is downward, to 61.5 in 1908, after which it rises again to 107.5 in 1912.⁵ The average number for the period 1896-1914 is 73.9. So far as the level of ocean rates is concerned, therefore, we may take approximately the same percentage of freight to value of trade as we have taken for 1895, namely 5 per cent. As a check upon this figure, one may find the total value of the world's imports and exports, and by subtracting the latter from the former reach a figure which represents roughly the cost of carriage. In 1907 the world's imports were estimated at \$18,685,000,000, and the world's exports at \$16,918,000,000; so that the difference, which measures roughly the cost of carriage, was \$1,767,000,000,⁶ which is 5 per cent of the total world foreign trade. Applying this figure to the net sum on which freights were payable by the United States in the period 1896-1914, \$16,028,204,000, we find the net freight charge to be \$801,410,000, or \$42,179,000 a year. Deducting as before one-fifth for port expenses⁷ we find the net earnings of American vessels in the export trade to be \$86,182,000; of foreign vessels in the import trade \$727,310,000. The sum remitted abroad on this account was then some \$641,000,000, about \$33,700,000 a year.

For the period 1896-1914, the balance of international payments is shown in the following table.

THE BALANCE OF PAYMENTS OF THE UNITED STATES, 1896-1914

	(UNITS OF \$1,000)	
	Credit	Debit
1. Exports of merchandise and silver	\$32,128,126	
2. Exports of gold	1,219,005	
3. New capital borrowings from abroad	2,000,000	
4. Interest payments on American capital invested abroad	760,000	
5. Freight charges receivable	86,000	
1. Imports of merchandise and silver		\$22,866,028
2. Imports of gold		1,392,907
3. New capital loans by the United States		1,000,000
4. Interest payments on total foreign capital invested in the United States		3,800,000
5. Tourists' expenditures		3,230,000

(Table continued on next page)

¹ *Statistical Abstract of the United States*, 1916, p. 726.

² *North American Review*, January, 1908, p. 109.

³ See Sir George Paish, *The Trade Balance of the United States*, National Monetary Commission, 1910, pp. 182-186.

⁴ See above, p. 226.

⁵ C. K. Hobson, *The Export of Capital* (1914), p. 182.

⁶ *Ibid.*, p. 174.

⁷ Hobson's detailed account of receipts and expenditures of seven voyages in 1907 showed the percentage of expenses in foreign parts to be 30 per cent of total receipts.

	Credit	Debit
6. Immigrants' remittances .....	.....	2,850,000
7. Freight charges payable .....	.....	727,000
8. Insurance premiums, commissions and miscellaneous items. ....	.....	570,000
Totals	\$36,193,131*	\$36,435,935

* As before, the net money brought by immigrants cannot be reckoned. The sums shown to the officials averaged about \$25, which for 14,493,000 immigrants makes about \$300,000,000.

If we sum up the various items of the net balance of indebtedness, as they have been approximated in the preceding pages, the result is as follows:

THE BALANCE OF INDEBTEDNESS OF THE UNITED STATES, 1896-1914

(UNITS OF \$1,000)

	Credit	Total	Annual average
1. Excess of exports of merchandise and silver	\$9,262,098		\$487,479
2. Net capital borrowings from abroad	1,000,000		52,632
Total	\$10,262,098		\$540,111
Debit			
1. Net interest payable	\$3,040,000		\$160,000
2. Tourists' expenditures	3,230,000		170,000
3. Immigrants' remittances	2,850,000		150,000
4. Net freight charges	641,000		33,737
5. Net imports of gold	173,902		9,153
6. Insurance premiums, commissions, and miscellaneous items	570,000		30,000
Totals	\$10,504,902		\$552,890

As an indication of the state of our balance of international payments in a single year of the immediate pre-war period, we give the balance drawn up by Sir George Paish for the United States National Monetary Commission of 1910. The balance is for the fiscal year July 1, 1908-June 30, 1909:

BALANCE OF PAYMENTS OF THE UNITED STATES, 1909

Merchandise

Exports	\$1,663,000,000
Imports	1,312,000,000
Excess of exports over imports	\$351,000,000

Gold

Exports	\$92,000,000
Imports	44,000,000
Excess of exports over imports	\$48,000,000

Silver

Exports	\$56,000,000
Imports	44,000,000
Excess of exports over imports	\$12,000,000

TOTAL EXCESS OF MERCHANDISE AND SPECIE

EXPORTS OVER IMPORTS \$411,000,000

Remittances of interest	\$250,000,000
Tourists' Expenditures	170,000,000
Immigrants' remittances	150,000,000
Freight	25,000,000

TOTAL REMITTANCES..... \$595,000,000

Excess (liquidated by permanent or private investments of capital) \$184,000,000

¹ On pp. 216, 217.

² On p. 219.

G. RÉSUMÉ OF OUR BALANCE OF TRADE FROM 1820 TO 1914

The historical survey of our balance of trade, as given in the preceding pages, has served its purpose if it has made clear the broad outlines of our gradually changing international situation, as now one factor and now another has exercised a predominating influence. Defective as many of the data are, particularly in the earliest periods, the main facts of the record stand out with quite astonishing clarity, so that very rarely is one in serious doubt in ascertaining what in any given period were the factors of major consequence, or in measuring the extent of their effect upon the balance of merchandise trade.

Since our account has been purposely condensed to the bare essentials of a descriptive summary, there is no need of detailed résumé. The general course of our trade and our trade balance from 1821 to 1914 is shown in the accompanying charts. The first ¹ shows the annual exports and imports. The second ² and third present the annual balances of trade, and also a five-year moving average designed to show the general course of the balance by eliminating small fluctuations. The second chart gives the balances in dollars; the third indicates the per cent of deviation of each annual balance from equality of imports and exports. In the fourth chart is shown the average annual balance of trade in each of the periods from 1820 to 1914. It shows that in response to alterations in the various invisible items of indebtedness, the size and the state of the balance have undergone gradual change; and that, in general, except for the brief period from 1838 to 1848, our balance of trade was unfavorable down to 1874, first by reason of our shipping earnings, then because to these earnings was added an inflow of foreign capital, and finally on account of our large production and export of gold, combined with still heavier borrowings of foreign capital; but that, since the overturn which occurred in 1874, our balance has been favorable, first moderately, because of the gradually growing interest charges on foreign capital invested in earlier periods, and then, since the late nineties, more markedly, by reason of the rapid growth of tourists' expenditures and immigrants' remittances.

U. S. BALANCE OF TRADE BY PERIODS, 1821-1918

(UNITS OF \$1,000,000)

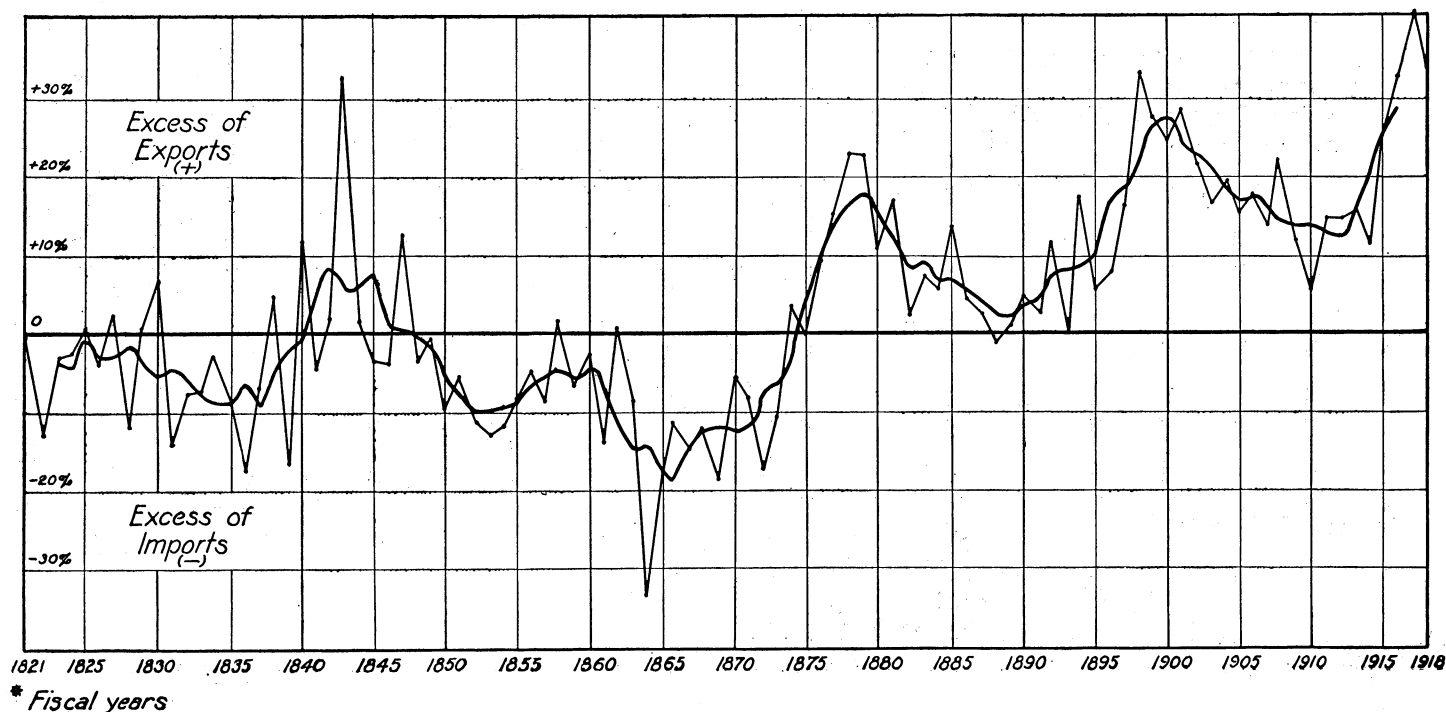
PERIOD (Fiscal years)	TOTALS FOR THE PERIOD				AVERAGES FOR THE PERIOD			
	Ex- ports *	Im- ports *	Balance		Ex- ports *	Im- ports *	Balance	
			Excess of ex- ports (+)	Excess of im- ports (-)			Excess of ex- ports (+)	Excess of im- ports (-)
1821-37	1389	1574	....	185	82	93	....	11
1838-49	1392	1358	34	....	116	113	3	....
1850-73	6585	8125	....	1541	274	338	....	64
1874-95	17231	14738	2493	....	783	670	113	....
1896-14	32128	22866	9262	....	1691	1204	487	....
1915-18	19632	9645	9987	....	4908	2411	2497	....

* After 1873, these figures include imports and exports of silver.

BALANCE OF MERCHANDISE TRADE EXPRESSED AS A PERCENTAGE OF TOTAL MERCHANDISE TRADE, 1821~1918*

(After 1873 silver is treated as merchandise)

Annual ratio
Five year moving average, centered



AVERAGE ANNUAL BALANCE OF MERCHANDISE TRADE OF THE UNITED STATES DURING SUCCESSIVE PERIODS, 1821~1914*

(After 1873 silver is treated as merchandise)

